CPA CONNECTICUT PHARMACISTS ASSOCIATION

Testimony before Human Services Committee
House Bill 6846
February 26, 2015

Good afternoon Senator Moore, Representative Abercrombie and members of the Committee. My name is Marghie Giuliano. I am a pharmacist and Executive Vice President of the Connecticut Pharmacists Association, a professional organization representing close to 800 pharmacists in the state. We are speaking in ***strong opposition*** to HB 6846.

We are both dismayed and disheartened that the Governor's budget **again** has devastating implications to pharmacy and ultimately the Medicaid patients.

We are strongly opposed to the recommendations because the past has demonstrated that cuts to pharmacy reimbursements are no more than "quick fix" solutions that are not sustainable and do not address the continuous increase in the prescription line item.

Medicaid Pharmacy Reimbursement Rates: ($6.2 M in FY 16 and $6.8 M in FY 17)

The Governor proposes to decrease the Medicaid reimbursement for pharmacies for the second time in less than 2 and ½ years. **Recommendation is to reimburse pharmacies at AWP – 18% (current reimbursement is AWP – 16%) plus a dispensing fee of $1.40 (current fee is $1.70).**

- **FACT:** The majority of prescriptions dispensed today are generic
- **FACT**: The Federal Government (CMS) has not updated the prices for generic medications in 8 years
- **FACT**: The State of Connecticut has one of the lowest State MAC formulas in the country at AWP - 72% (compare to NY at AWP – 25%)
- **FACT**: The price of generic medications has skyrocketed in the past 18 months
- **FACT**: Pharmacies have been subsidizing the state and federal government and absorbing the losses (as much as $50 - $100 on many commonly dispensed medications) under protest to take care of the patient
- **FACT**: Pharmacies can currently derive a small profit on the BRAND name products that the Governor has on the chopping block
- **FACT**: Of the $15 million in **audit recoupment** from ALL Medicaid providers, almost 50% of that or $7 million has been from pharmacy
- **FACT**: Once CMS issues its final rule on the new Federal Upper Limit list (expected this year) pharmacies will be reimbursed for generics at 175% of the Average Manufacturers Price. How will that impact the state budget? How will that impact pharmacy?
- **FACT**: If you continue to decrease the AWP you will place many businesses and patients at risk without addressing the core issue. **This formula does not work in our business model and threatens the infrastructure of pharmacy in our state.**

The legislature continues to come back to a well that is getting incredibly dry.

I have provided you with a brief education on reimbursement by payers to pharmacies for medications. I have also attached a "visual" aid that documents the historical chronology of Medicaid reimbursement to pharmacies. There are two components that are used to reimburse pharmacies for prescriptions. Pharmacies are reimbursed

for "cost of the drug" which includes a minimal profit for some pharmacies if they purchase large enough volume, and the dispensing fee which is supposed to cover overhead costs.

Let's start with the dispensing fee.

- **FACT**: The current dispensing fee of $1.70 does not cover the true cost of dispensing.
- **FACT**: Vials, labels, computer software systems, salaries, utilities, cost of managing inventory, etc., all cost money and are part of the overhead that must be calculated to determine "true cost of dispensing."
- **FACT**: These costs have steadily increased **EVERY YEAR**.
- **FACT**: An **independent study done in 2007** by Grant Thornton reported that the **actual cost of dispensing for a Medicaid patient in the State of Connecticut is $12.34. That figure is now 8 years old.**
- **FACT**: Pharmacies accept a lower dispensing fee because there is still some profit on the drug cost side.

Cost of Drug

- Reimbursement for cost of drug has been based on a benchmark, published number called Average Wholesale Price (AWP). This number is set by the pharmaceutical manufacturers.
- No pharmacy actually pays AWP for the drug. Pharmacies are given discounts off of AWP based on volume of drugs purchased, prompt pay, or even pre-pay to get a better discount.
- Current reimbursement by Medicaid for the "cost of drug" is AWP – 16%.
- Based on an AWP of $200 for brand name products, the payment to the pharmacy is $168.00 plus the 1.70 dispensing fee. If you decrease the AWP by 2% you will decrease the reimbursement by $4.00. Very broadly speaking, pharmacies purchase drugs from wholesalers at AWP – 18% to AWP – 21%. Since the dispensing fee does not cover cost of dispensing, we rely on making some money on cost of good. If you continue to decrease the AWP you will place many businesses and patients at risk without addressing the core issue. **This formula does not work in our business model and threatens the infrastructure of pharmacy in our state.**
- The Centers for Medicare and Medicaid Services are developing a national reimbursement based on an approved and transparent methodology. As CMS moves toward a reimbursement to Actual Acquisition Cost or Average Acquisition Cost they have recognized that pharmacy dispensing fees will have to increase dramatically to ensure adequate access. This new model was supposed to be in place last July. We are now awaiting the process for next year.

If these recommendations are implemented as proposed, access to care will be an issue. If pharmacies close, the prescription volume that shifts to other pharmacies will affect access for all residents of Connecticut. The "quality" of access will not be the same. In fact, **waiting for prescriptions may become a day-long event.** The Medicaid population is a more labor intensive group of patients to serve. Historically, when the Medicaid program instituted significant changes, such as a preferred drug list, prior authorizations and co-pays (temporarily), it was the pharmacists who helped them navigate these changes. Who will service the thousands of CT residents who rely on their pharmacies for information and care, never mind the delivery services and special packaging needed so that they can continue to live independently? So there may be access – but it will be changed – for everyone.

This proposal will impact jobs in our state as well. There are approximately 153 independent pharmacies in our state. There were almost 500 - 20 years ago and almost double this amount in 1999. These pharmacies employ more than 1,600 full time employees and 430 full time pharmacists. It is important to remember that pharmacies are businesses that pay taxes, employ people and support their communities. They cannot afford to remain in a program where they lose money filling prescriptions.

As you know, our organization has always worked with the legislature to help make the Medicaid program as cost efficient as possible. We have brought hundreds of millions of dollars to the table in savings and yet have never shared in the savings. However, here we are again looking at the same method to decrease this line item – cut pharmacy reimbursement.

I am sure that many of you heard from pharmacists on this issue. The level of grassroots communication has increased dramatically this year because pharmacy has reached its breaking point. They have no more to give from their bottom line.

The definition of insanity is doing the same thing over and over again and expecting different results. Not sure who is insane – the administration – or perhaps it's me – since I am here year after year saying the same thing and truly believing there will be different results.

Going forward, I would urge the legislature to put together a work group that will develop programs that will actually have long term savings for the prescription drug line item as well as programs that will create savings on total health care expenditures. We need to be proactive on these issues. We cannot keep reacting to budget deficits. If we had implemented just one of the programs that involve pharmacist services ten years ago, I don't believe we would be in as big a deficit as we are.

Our Association has always tried to work collaboratively with the legislature and the administration to provide innovative ideas to save money. We only ask that the Legislature and the administration continue to work with us to implement some ideas that will create the savings the state is looking for without devastating the pharmacy business and access to care.

We look forward to continuing the dialogue.

Connecticut Pharmacists Association
Reimbursement and Administrative Tracking
Chronological

Changes in reimbursement from the state:

July 13, 1978	$2.52 walk-in; $2.10 nursing home
September 12, 1980	$2.77 walk-in; $2.31 nursing home
December 3, 1981	$3.11 walk-in; $2.59 nursing home
November 1, 1985	$3.55 walk-in; $3.11 nursing home
August 8, 1989	AWP – 8%
January 1, 1991	AWP – 8% + $4.10* (*first time for a universal fee)
1/1/91 – 12/31/94	OBRA freeze on pharmacy reimbursements
August 1, 1995	AFDC moved to Managed Care (fees decreased)
November 1, 1995	AWP -12% + $4.10
November 15, 1997	$1.00 Co-pay
September 1, 2002	AWP – 12% + $3.85
2003 Session	AWP – 12% + $3.60 & $1.00 co-pay
October 1, 2003	AWP – 12% + $3.30
November 1, 2003	Medicaid Co-pay increased to $1.50
July 1, 2004	AWP -12% + $3.15
October 1, 2005	AWP -14% + $3.15
January 1, 2006	Medicare Part D implemented – fees decrease
February, 2008	Husky A & B "carved out" – back in fee for service
April, 2009	AWP – 14% + $2.65 Generics: AWP – 45%
September, 2009	"AWP roll back" – approximately 4% reduction to pharmacy bottom line
June, 2010	AWP – 14% + $2.85 **(20 cent fee increase)** Generic drugs: AWP – 55% (decrease in reimbursement)
June, 2011	AWP – 16% + 2.00 Brand (2% decrease in cost of drug) AWP – 72% + 2.00 Generics (18% decrease in cost of drug)
June, 2012	AWP – 14% + 2.00 Brand (differential reimbursement for independent pharmacies only) **NEVER IMPLEMENTED**
December, 2012	AWP – 14% for Independents repealed **(Never Implemented)**
December, 2012	AWP – 16% + 1.70 Brand (30 cent reduction in fee due to Deficit Mitigation Plan) AWP - 72% + 1.70 Generics (30 cent reduction in fee due to Deficit Mitigation Plan)